

State
Employees’
Deferred
Compensation
Plan
Enrollment
Form

Enroll today!

Send your
completed form
to your
agency liaison
or the
Deferred
Compensation
Office at
200 West
Washington,
Springfield,
Illinois 62701

State Employees’ Deferred Compensation Plan
Enrollment Form

Please type or print clearly in ink. Initial any corrections, additions, deletions, or changes in pen. Complete all sections. For more information, call the Deferred Compensation Office at 1-800-442-1300, 1-217-782-7006, or TDD/TYY 1-217-785-3979.

Last Name		First	Middle Initial	Social Security Number	
Street Address			Home Phone Number ()		Date of Birth
City	State	ZIP Code		Office Phone Number ()	
Agency or University		Work Address			

Section A: Transaction Type *Check appropriate box*

☐ Initial Enrollment ☐ Reenrollment of a Former Participant

Section B: Amount of Deferral *The minimum amount of deferral is \$10 per pay period or \$20 per month, whichever is greater. Indicate the amount to be deducted from each paycheck. Deferrals can begin no sooner than the first pay period of the next month.*

☐ I hereby elect to participate in the State Employees’ Deferred Compensation Plan. I authorize the State of Illinois to defer \$_____ from my total compensation each pay period until my termination, modification, or revocation of this amount, effective the ☐ first ☐ second pay period in _____.

(month)(year)

Section C: Investment Request *There are 12 investment options. Select one or a combination in which to invest your deferrals. The percentage must total 100% and must be in whole numbers with no fractions.*

I request that my deferred compensation deferrals be invested in the following manner:

_____ % Vanguard Prime Money Market Fund – Institutional Shares* (money market)	_____ % Fidelity Puritan Fund FFURX (stocks and bonds)	_____ % PIC Small Cap Growth Fund–Institutional Shares PISCX (small-company stocks)
_____ % Stable Return Fund* (investment contracts)	_____ % Fidelity Fund FFIDX (large-company stocks)	_____ % T. Rowe Price International Stock Fund PRITX (stocks outside U.S.)
_____ % Vanguard Total Bond Market Index Fund – Institutional Shares VBTIX (bond index)	_____ % Vanguard Institutional Index Fund VINIX (stock index)	_____ % Wells Fargo Large Company Growth Fund–Institutional Shares NVLCX (large-company stocks)
_____ % T. Rowe Price New Income Fund PRCIX (bonds)	_____ % Liberty Acorn Fund ACRNX (small-company stocks)	
	_____ % Ariel Fund ARGFX (stocks–social restrictions/advisor minority owned)	

*These funds are designed to maintain a stable share price of \$1.00 and therefore are not listed daily.

Read this information completely before signing

I hereby acknowledge receipt of a copy of the Plan and agree to the terms and conditions. I hereby acknowledge that I have received and read a prospectus for each mutual fund in which I am investing. I understand and acknowledge that all amounts of compensation deferred pursuant to the Plan and all income attributable to such amounts shall be held in one or more custodial accounts for the exclusive purpose of participants and beneficiaries under the Plan. I understand that participation in the State Employees’ Deferred Compensation Plan is a benefit offered by the State of Illinois. In return for this benefit, I and my heirs, successors, and assignees shall hold harmless the State and its employees, officials, agents, assignees, and successors from any liability for all acts in good faith.

Signature _____ Date _____

Send all four copies of completed form to your agency liaison—or send directly to the Deferred Compensation Office, 200 West Washington, Springfield, Illinois 62701.

How did you learn about the State Employees’ Deferred Compensation Plan?

☐ Meeting ☐ Agency Liaison ☐ Coworker ☐ Other _____

Liaison Name	Agency	Approval of Deferred Compensation Office required before any transaction takes place.
Phone Number ()	Date	
		Date _____ BY _____

In compliance with the State and Federal Constitution, the Illinois Human Rights Act, the Americans with Disabilities Act, and Section 504 of the Federal Rehabilitation Act, the Department of Central Management Services does not discriminate in employment, contracts, or any other activity. If you have a complaint, call the office of the Director of CMS at 1-217-782-2141 or TDD/TYY 1-217-782-2000.

State
Employees’
Deferred
Compensation
Plan
Beneficiary
Election Form

Send your
completed form
to your
agency liaison
or the
Deferred
Compensation
Office
200 West
Washington,
Springfield,
Illinois 62701

State Employees’ Deferred Compensation Plan
Beneficiary Election Form

Please type or print clearly in ink. Initial any corrections, additions, deletions, or changes in pen.

Last Name	First	Middle Initial	Social Security Number	Pay Code
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Check appropriate box

☐ Initial Designation

☐ Change of Designation

☐ Change of Beneficiary(ies) Address

Beneficiaries (A beneficiary may be a person, trust, estate, or other legal entity.) The percentages for both the primary beneficiaries and the contingent beneficiaries must be in whole numbers and total 100%.

Designate “P” or “C” for primary or contingent beneficiary. List all primary beneficiaries first.

↓

1.

P or C	Last Name	First	Middle Initial	Relationship	Date of Birth	SSN*	Percent to Receive
Street				City	State	ZIP Code	

2.

P or C	Last Name	First	Middle Initial	Relationship	Date of Birth	SSN*	Percent to Receive
Street				City	State	ZIP Code	

3.

P or C	Last Name	First	Middle Initial	Relationship	Date of Birth	SSN*	Percent to Receive
Street				City	State	ZIP Code	

4.

P or C	Last Name	First	Middle Initial	Relationship	Date of Birth	SSN*	Percent to Receive
Street				City	State	ZIP Code	

5.

P or C	Last Name	First	Middle Initial	Relationship	Date of Birth	SSN*	Percent to Receive
Street				City	State	ZIP Code	

6.

P or C	Last Name	First	Middle Initial	Relationship	Date of Birth	SSN*	Percent to Receive
Street				City	State	ZIP Code	

Read this information completely before signing

1. Participants may designate primary and contingent beneficiaries. Contingent beneficiaries become effective only after the death of all primary beneficiaries prior to the death of the participant. Once a primary beneficiary becomes entitled to the benefits, the contingent designation by the participant is no longer in effect.

2. If more than one beneficiary is named in either category, benefits will be paid according to the following rules:

a) Beneficiaries can be designated to share equally or to receive specific percentages.

b) If a beneficiary dies before the participant, the benefits will be paid only to the surviving beneficiary(ies). If more than two beneficiaries are originally named to receive different percentages of the benefits, surviving beneficiaries will share in the same proportion to each other as indicated in the original designation. Example: Original designation is: John Doe, 10% and Mary Doe, 50% and William Doe, 40%. If Mary Doe dies before the participant, John Doe will be entitled to receive 20% of the benefits and William Doe, 80%.

3. If a beneficiary dies before receiving all payments of an installment distribution, the remaining distributions will be paid to the heirs or the estate of the beneficiary or the beneficiary’s designee.

4. Beneficiary designations may be changed at any time by filing a new form with the Department. The new designation will be effective when received by the Department.

5. If a beneficiary has not been designated, or all designated beneficiaries have died prior to the participant’s death, or the designation is ineffective for any reason, the estate of the participant will be the beneficiary.

I hereby elect my beneficiary(ies) as named above. This designation of beneficiaries supersedes all prior designations of beneficiaries I have made.

Signature _____ Date _____

Send all four copies of completed form to your agency liaison—or send directly to the Department of Central Management Services, 200 West Washington, Springfield, Illinois 62701.

* Social Security number

In compliance with the State and Federal Constitution, the Illinois Human Rights Act, the Americans with Disabilities Act, and Section 504 of the Federal Rehabilitation Act, the Department of Central Management Services does not discriminate in employment, contracts, or any other activity. If you have a complaint, call the office of the Director of CMS at 1-217-782-2141 or TDD/TYY 1-217-782-2000.



SUMMARY PLAN DESCRIPTION

INTRODUCTION

Authorized by Section 457 of the Federal Internal Revenue Code, Deferred Compensation is available to all employees in code agencies, court offices, and university systems. It is an excellent way of accumulating long-term savings to supplement income. Deferred Compensation offers a strong financial advantage over after-tax investments, with high restrictions on access to funds.

This Summary Plan Description explains Plan details, benefits, and limitations. It should be read carefully so you will know your rights and responsibilities under the Plan.

The plan rules will change after December 31, 2001.

Telephone Numbers:

Deferred Compensation

800/442-1300

217/782-7006 or

TDD/TYY 800/526-0844

T. Rowe Price Retirement Plan Services, Inc.
Recordkeeper

888/457-5770

TDD/TYY 800/521-0325

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Q&A

HIGHLIGHTS OF THE DEFERRED COMPENSATION PLAN

What is Deferred Compensation?

It is a long-term savings program. It can be a way for you to provide for a supplementary retirement income or a bridge to the next job. Investments are made with before-tax dollars through voluntary salary deferral until retirement or earlier (termination of employment, death, or hardship). In addition, the earnings on these deferrals will compound free of current taxes. In short, it is a way for state employees to have part of the money they would have paid in income taxes working for their future.

Deferred Compensation contributions and earnings are completely exempt from Illinois state income tax, even at the time of distribution. Not only is the program a wonderful investment for your future, but also you never have to pay Illinois income tax on what you save.

How is this tax benefit possible?

Effective January 1, 1979, the Internal Revenue Code was amended to authorize Deferred Compensation Plans (under Section 457) for employees of state and local governments. In 1982 regulations relating to these plans were adopted by the U.S. Treasury Department.

Who is responsible for the program?

The Department of Central Management Services administers the program. The Illinois State Board of Investment has investment and oversight responsibilities.

What are my investment choices?

The State offers an array of investment options:

Vanguard Prime Money Market Fund-Institutional Shares, a no-load money market fund that invests in instruments issued by financial institutions and the U.S. government;

Stable Return Fund, which includes guaranteed investment contracts (GICs) guaranteed by insurance companies and other financial institutions;

T. Rowe Price New Income Fund, a no-load bond fund;

Vanguard Total Bond Market Index Fund - Institutional Shares, a no-load bond index fund designed to mirror the return on the Lehman Brothers U.S. Aggregate Index;

Fidelity Puritan Fund, a no-load stock and bond fund;

Vanguard Institutional Index Fund, a no-load stock index fund that seeks to provide returns that mirror the Standard & Poor's 500 Index;

Fidelity Fund, a no-load fund that invests in the common stocks of "blue chip" companies;

Liberty Acorn Fund, a no-load fund that invests in small, rapidly growing companies in both U.S. and foreign markets;

Ariel Fund, a no-load fund with social restrictions and a minority-owned adviser. The fund invests in the common stocks of smaller, undervalued growth companies.

PIC Small Cap Growth Fund-Institutional Shares, a no-load fund that invests at least 65% of its assets primarily in the common stocks of small-capitalization growth companies.

T. Rowe Price International Stock Fund, a no-load stock fund that invests in common stocks of established companies in the non-U.S. market.

Wells Fargo Large Company Growth Fund-Institutional Shares, a no-load fund that invests primarily in large, high-quality, dynamic growth companies whose earnings are expected to grow 50% faster than the earnings of the S&P 500.

A prospectus, a detailed description of each investment option, can be obtained by calling the mutual fund companies listed on page A30 or by contacting the Deferred Compensation Office.

Are there any costs to participate?

Yes. The state legislation authorizing the Plan requires that the administrative expenses of the Plan be paid from investment earnings or equitably prorated fees charged to participants.

To cover the administrative expenses of the Plan, a charge no greater than 1% per year will be assessed on a monthly basis against each participant's account. The fee has never been at the 1% maximum allowed and currently is at an annual rate of .15 of 1% with a maximum fee of \$45 per year.

There is one additional charge for special transactions. You are allowed to make one exchange (movement of past deferrals) each quarter. This exchange is free of charge. Section 2700.640 (f) requires that a \$10.00 fee be assessed for each additional exchange made during this same quarter.

Other expenses in conjunction with the Plan, such as those for promotional activities, are borne by the investment funds. Each of the investment funds also has operating expenses. These expenses and the methods of handling them are more fully explained in the literature supplied by the investment funds.

How can I be assured my account is correct and in good order?

Four times a year, you will receive a statement reflecting all transactions, earnings, asset charges, and the total value of your Deferred Compensation account. This statement is mailed approximately three weeks after the end of each quarter. You will also receive a confirmation of any exchanges of past deferrals after the completion of the transaction.

It is important that you examine all of these statements carefully to see if there are any errors in how your account has been handled. If there are errors, write to the Deferred Compensation Office immediately as the Plan provides that participants are responsible for notifying the Department in writing of any error within 14 days of the receipt of any statements.

ELIGIBILITY

Who is eligible to participate?

All state employees, whether elected or appointed, who are receiving compensation while the Plan is effective can participate. Independent contractors providing personal services to the state can also participate.

Who should NOT enroll in the Plan?

Deferred Compensation should not be considered:

- IF you simply cannot afford to have anything withheld from your current spendable income; or

- IF you do not have regular savings sufficient to meet your normal needs and short-run emergencies. (Important: Please read the remarks concerning unforeseeable emergency on page A9.)

MINIMUM AND MAXIMUM DEFERRALS

Is there a minimum that I can defer?

The minimum you can defer is \$10 per pay period or \$20 per month, whichever is greater.

What is the maximum I can defer?

The maximum amount you can defer during any calendar year is determined annually. This maximum is imposed by Section 457 of the Internal Revenue Code. However, we encourage you not to try to defer more than you can comfortably afford.

Do my contributions to other state-sponsored tax-deferred and tax-exempt programs affect my maximum?

No. Participants may contribute the maximum to each plan they are enrolled in.

What happens if I “overdefer”?

The state does not allow any deferrals over the maximum to remain invested. It is your responsibility to revoke participation or change the amount of your deferral so you will not exceed your maximum.

If you have deferred in excess of your maximum, and correction of the overage can not be corrected through the payroll process, the department will not invest the excess and will return it to you as taxable income as soon as possible.

Can I participate in more than one Deferred Compensation Plan?

Yes, as long as your total deferrals from both plans do not exceed the maximum imposed by Section 457 of the Code.

If I am an educator and eligible to participate in a 403(b) (tax-sheltered annuity) plan, can I also make contributions to the Deferred Compensation Plan?

Yes. You may participate in both plans concurrently (provided you meet the eligibility

requirements defined in Section 2700.200 of the Plan).

Is it worthwhile to contribute the minimum of \$20 per month?

Whether deferring a little or a lot, the amount you accumulate through the convenience of payroll deduction will help build a nest egg for your retirement years. Even small deferral amounts can build into a healthy investment if you begin your contributions early in your career.

CATCH-UP

If I do not defer the maximum each year, can I make up those amounts in later years?

Yes. The law allows a limited make up in the last three years before the year in which you reach your “normal retirement age.” For each of the three years, you are able to defer your regular limit, plus an additional amount which you were eligible to contribute in earlier years but did not. The total contributions (regular and makeup) cannot exceed two times the regular limit per year.

The catch-up amounts are based only on contributions which could have been made during 1979 and later years. You may be eligible for catch-up even if you were not a participant in the program. However, you must have been a state employee during the period for which you want to make up underutilized deferrals.

How do I make arrangements to defer this additional catch-up amount?

You complete a worksheet, which you may request from the Deferred Compensation Office or your Agency Liaison. Upon receipt by the department, a special “Catch-Up Form” will be completed and sent to you for review and signature.

What is my “normal retirement age”?

For the purposes of catch-up, your “normal retirement age” is any age you select that is no later than the date you attain age 70½ (unless you are still working for the State) and no earlier than the earliest age you can retire with unreduced benefits from your State retirement system.

What are the catch-up conditions?

Once you have deferred additional compensation under the catch-up provision of this Plan, you may not change your “normal retirement age.” This does not mean you must actually retire when you reach your “normal retirement age,” but rather you cannot change the age for purposes of catch-up.

You can only use the catch-up provision once under any plan. For example, if you defer additional amounts under the catch-up provision of the Illinois Plan for one year and then join the City of Chicago Deferred Compensation Plan a few years later, you cannot defer extra amounts under the catch-up provision of the Chicago plan.

ENROLLING AND MAKING CHANGES

Is there a scheduled enrollment period to begin participation or make changes?

No, you may enroll, reenroll, or make changes in your deferral amount any month. The effective date will be the first or second pay period of the next month (or any subsequent month).

How may I put money in?

Deferrals are made by payroll reduction only. You complete an enrollment form, and it is your payroll office’s responsibility to deduct the amount you authorize. In case of an error, notify your Agency Liaison, because corrections must be made as soon as possible from subsequent paychecks.

If I transfer to another state agency, what should I do?

You need to complete a Change Form and forward it to the Deferred Compensation Liaison in your new agency. Deferrals will continue without interruption. If for some reason there is a break in deferrals, the missed deferrals will have to be made up in subsequent paychecks.

If you do not want your deferrals to continue at the time of transfer, you should revoke participation before you leave your old agency.

Can I increase or decrease the amount I defer?

Yes. Changes can be made at your convenience, provided the form changing the deferral amount has been accepted by the department during a prior month.

How will the deferral affect my paycheck?

You will need to compute that yourself because it depends on how much you wish to defer and your tax bracket. For example, if you reduce your salary by \$100 per month (your deferral) and your deduction for federal and state income taxes is 31%, you save \$100, but your take-home salary will only be reduced by \$69.

The taxes withheld each pay period are calculated on your salary, less Deferred Compensation, any retirement contributions you pay, tax-free insurance premiums, and Flexible Spending Account contributions.

The amount you are deferring will be identified on your pay stub as deduction code "O." The "year-to-date" gross salary portion of the pay stub will reflect your full salary without reduction. However, the nontaxable income field will include Deferred Compensation deferrals and all other year-to-date nontaxable or tax-deferred deductions.

Am I locked into the program or can I stop my deferrals?

You can stop deferrals anytime — completely — by filling out the revocation section of the Change Form.

If I stop my deferrals, do I get my money back?

No. Your contributions remain in the Plan and will accumulate interest and/or dividends until you separate from state service for at least 30 days, die, or incur an unforeseeable emergency as defined in Section 2700.740 of the Plan.

If I stop my deferrals, can I resume at a later date?

Yes. You may reenroll anytime with the effective date the first or second pay period of the next month (or any subsequent month).

What happens if I go on disability or a leave of absence?

Your deferrals will stop when your regular paycheck stops. When you return to work, your deferrals are to resume immediately unless you have revoked participation. Disability or a leave of absence do not constitute conditions for a distribution.

If I move, may I telephone the Deferred Compensation Office with my new address?

No. You should notify the Deferred Compensation office in writing.

Where do I get the correct forms to make my changes?

All forms for any transaction in the Deferred Compensation Plan can be obtained by calling the Deferred Compensation Office at 800/442-1300, 217/782-7006, or TDD/TYY 800/526-0844, or by contacting your Agency Liaison.

If you are making a change in your deferral amount, your address, your beneficiary, etc., you may want to get the form you need from your Agency Liaison. If you want to change the amount of your deferral, revoke participation, or submit an address change, use the Change Form. Address changes must be made in writing by the participant directly to the Deferred Compensation office.

A copy of your approved Enrollment Form will be returned to you by your Agency Liaison. If you have not received a copy of this form within two weeks of the effective date, please call the Deferred Compensation Office.

If you prefer a paperless process when making investment changes, you may call the Plan's recordkeeper at 888/457-5770. You will receive a confirmation of your exchange transaction from the Plan's recordkeeper within two weeks of the effective date.

CUSTODIAL ACCOUNTS

What does the custodial account under Section 2700.660 of the Plan mean to me as a Participant?

In complying with IRS requirements, all of the deferred compensation assets have been placed in one or more custodial accounts for the exclusive benefit of the participants and beneficiaries under the Plan. The State can not seize, borrow, or use the assets for its own purposes nor are they subject to the creditors of the State of Illinois. The State sponsors and administers the Plan and may hire vendors to assist in the daily operations, such as recordkeeping. The custodians merely safeguard the Plan assets to ensure they are used solely for their original intent, your retirement income.

Are these assets considered marital property in a divorce case?

As required under a final judgment, decree, or order made pursuant to a state domestic relations law, a portion of a Participant's account may be transferred to a separate account in the name of an alternate payee. The alternate payee may only receive a distribution from the account upon the Participant's death or separation from state employment. Until that time, the alternate payee retains the right to choose from the investments available in the Plan structure.

Can the assets be seized by the creditors in a Participant's bankruptcy?

As defined in Section 2700.660 and according to IRS requirements, deferred money is held in a custodial account for the exclusive benefit of the Participant and may be made available in the event of a Participant's death or separation from state service.

INVESTMENTS

Can I split the amount deferred among the various investment choices?

Yes. You can use any whole percentage split you wish.

Are there any penalties if I change my investment request or stop participation in the Plan?

No. There are no penalties, and your account will continue to be credited with any investment earnings. Stoppage of payments (revocation) does not result in a payout of your account.

Changes in Past Investments

Can I change how my past deferrals are invested?

Yes — exchanges are unlimited.

How?

For a paperless transaction, you may call the Plan's recordkeeper at 888/457-5770 or TDD/TYY 800/521-0325. Internet access is available at rps.troweprice.com. Follow the prompts to request a personal identification number (PIN). If you prefer, the Department has a special investment form for making transactions. You may request the form from your Agency Liaison or the Deferred Compensation Office.

When will my change in past deferrals be effective?

Changes in past deferrals are initiated on a daily basis.

This cycle is constant unless a holiday occurs (when the market is closed) in which case the transaction is a day later. You are sent a confirmation letter covering the exchange transaction within seven business days.

Is there a charge?

There is no charge for the first exchange in each quarter. However, for each additional change occurring within that quarter, you will be assessed a transaction charge of \$10.

Regardless of how you make your request (by form, phone, or Internet access), the Deferred Compensation Plan will not assume responsibility until the request is received in the Deferred Compensation Office or placed by phone or by Internet access to the recordkeeper.

Changes in Future Deferrals

Can I change how my future deferrals are invested?

Yes — an unlimited number of times at no charge.

How?

You may request the change in mix in a different section of the same investment form used for changes in past deferrals. Or, you may call the Plan's recordkeeper at 888/457-5770 or TDD/TYY at 800/521-0325. For Internet access, go to rps.troweprice.com. Follow the prompts to request a PIN.

When will my change in future deferrals be effective?

The change is effective with your next deferral to be invested after the form is received by, the call is made to, or Internet access is made with, the recordkeeper.

DISTRIBUTIONS

Eligibility for Distributions

When am I eligible to receive distributions from the Plan?

The conditions under which you can get your money out of the program are:

- Termination of service (off the state payroll for 30 days)
- Death (your beneficiary would then receive your benefits)
- Incurring an unforeseeable emergency
- Cash-out provision (small inactive accounts)

You can only get your money out of the program under certain conditions, and therefore, no one should consider this program for anything other than long-term purposes. Your deferrals should be only money that you have earmarked for your future and not for something else you might have in mind, like a house, car, children's education, etc.

When will I be considered terminated?

Termination of service is defined in the Plan as the "permanent severance" of the employment relationship. Neither a break in state service for a period of less than 30 days nor transfers among various branches of state government are considered termination. Retirement is, of course, considered termination. Layoff is also considered termination of service under Deferred Compensation if there is no designated date for "return to paid" status.

If I am an independent contractor, when am I considered terminated?

Termination of service for independent contractors is defined as one year after the day on which your last contract with the state expires.

If you are a contractor working like a "common law" employee rather than an independent

contractor as defined by the Internal Revenue Code, you are considered terminated if you have had a permanent severance of your employment relationship with the state and have been off any state payroll for at least 30 days.

In case of termination or death, what steps should be taken?

As soon as possible, you or your beneficiary should contact the Deferred Compensation Liaison in your agency or contact the Deferred Compensation Office directly. Proof of termination of state service (or death) will be required before benefits are paid.

A separated participant and a beneficiary have a total of 60 days to make an irrevocable election about how the account is to be distributed.

Types of Distributions

How are benefits paid to the participant?

You may choose when and how the account is to be distributed.

However, if your account is equal to or less than \$3,500 when you are eligible for distribution, your account will be paid out immediately in a lump sum, unless you are eligible to transfer your account to another 457 plan.

The methods of distribution are:

- **In a lump sum** — In most cases, this may not be desirable since Deferred Compensation is fully taxable at ordinary federal income tax rates when it is distributed.
- **In a partial lump sum** — You can have a portion of your account (a specific dollar amount) distributed followed by installment payments.
- **In installments** — You can choose to have distributions made over a specific time period, not to exceed your life expectancy at the time of separation, or choose a distribution over a recalculated life expectancy. An annual recalculation of life expectancy would increase the number of payments beyond your life expectancy at the time of separation. The installment amount you receive for either option will vary. The installments may be made on a monthly, quarterly, semiannual, or annual basis.

- **In fixed-dollar installments** — You can have fixed-dollar amount distributions, but the amount chosen must be approved by the division for compliance with federal distribution regulations. These payments may be made on a monthly, quarterly, semiannual, or annual basis.

If installments are chosen, payments may be deposited directly into your checking or savings account.

Any amounts not distributed will continue to be invested, and any earnings will continue to be tax-deferred. If you die before the entire account is distributed, the remainder goes to your beneficiary.

- **As a plan-to-plan transfer** — You specify which IRS Code Section 457 plan you want the transfer made to. The receiving plan must be another state or local government plan eligible to receive transfers.

How are benefits paid to the beneficiary?

Beneficiaries may also choose how the account is to be distributed.

There are some special rules that apply only to beneficiary distributions. For example, a beneficiary cannot delay distributions. Beneficiaries should refer to the Plan rules or call the Deferred Compensation Office for information.

What happens if I don't make my benefit election within the election period?

Your account will be distributed in five annual installments if it is over \$3,500. It will be distributed in a lump sum if under \$3,500.

It is your responsibility to make your election within the required number of days.

When Distributions Begin

When will my distributions begin?

It depends on the type of distribution you selected.

Monthly payments and immediate lump-sum and partial lump-sum distributions are made the first monthly accounting date after the expiration of 60 days from your separation from state service. Quarterly payments are

made in January, April, July, and October; semiannual payments in January and July; and annual payments in either January or July.

If you elected a delayed distribution, your account will begin to be distributed on the first accounting date for your particular distribution type after the expiration of 30 days from reaching your delayed distribution date.

When do I elect how I want my account distributed?

You have a total of 60 days to make a final, irrevocable election about when and how you want the account distributed. However, if you elected a delayed distribution date, or if you resign from a leave of absence, you have 30 days following that date to elect the method of distribution.

Can I delay the distribution of my account?

Yes, as long as you make the request within your election period described above (or anytime before), are under age 70½, and your account is over \$3,500. You may delay your distribution until a specific future date.

Once the 60-day election period has expired, this delayed distribution date becomes irrevocable (unless you incur an unforeseeable emergency or return to state service). When you reach your delayed distribution date, you may choose to either receive distribution or make a one-time change forward of your distribution date (not to exceed age 70½). This second delayed distribution date becomes irrevocable after the election period expires.

UNFORESEEABLE EMERGENCY

What is an unforeseeable emergency?

As explained in the Plan in Section 2700.740 and defined by the Treasury regulations on state deferred compensation plans, unforeseeable emergency means:

- severe financial hardship to the participant resulting from a sudden and unexpected illness or accident of the participant or of a dependent of the participant, loss of the participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.

***What if I have an unforeseeable emergency?
Can I get my Deferred Compensation monies?***

Withdrawals due to financial emergency are possible. However, you must revoke deferrals, petition the Hardship Committee, and provide detailed proof that the hardship or unforeseeable emergency exists and could not have been anticipated by any reasonable plan or budget.

If approved by the Hardship Committee, you will receive a full or partial distribution of your account and must continue in revocation status for one year from the date you submitted the hardship application.

What is the Cash-Out Provision, and what are the qualifications to request a distribution?

The Cash-Out Provision allows you to request a one-time lump-sum distribution of your account while you are still working. In order to qualify, you must not have contributed to your account in the preceding two years, and you must have an account balance of \$3,500 or less at the time of distribution.

How do I request a distribution under the Cash-Out Provision?

Call or write the Deferred Compensation Division and request a Cash-Out distribution packet. Once you have returned the documentation and the Division has confirmed you meet the necessary qualifications, your account will be distributed in the next monthly distribution cycle.

Can I participate in Deferred Compensation again if I take a distribution under the Cash-Out Provision?

Yes, you may reenroll at any time, effective the following month. However, you may only utilize the Cash-Out Provision once.

TAX QUESTIONS

Are my state pension, Social Security, and other benefits affected by Deferred Compensation?

No. Retirement, FICA, and life insurance premiums are calculated on gross pay. Deferred Compensation (and any employee-paid retirement contributions, tax-free insurance premiums for the state employee health plans, and Flexible Spending Account contributions) are then subtracted from gross to give the new basis for federal and state income tax calculations.

Your rights to Social Security will not be affected when your Deferred Compensation account is distributed. Your distribution has already been taxed for Social Security purposes. The Social Security Administration does not consider your Deferred Compensation distribution as earned income to be applied against the maximum a Social Security recipient can earn before Social Security is reduced.

Up to 85% of the benefits of a Social Security recipient are subject to federal income tax provided half those benefits, plus all other income (which includes Deferred Compensation distributions), total at least \$25,000 (\$32,000 for a couple).

Does my W-2 Form reflect my contributions?

Yes. Your W-2 statement will have been reduced by the total amount of your nontaxable compensation. The total amount you deferred for that year will be reported in a special box on the W-2 marked "457." You do not show your contributions or earnings on your income tax forms until the year(s) you receive them.

Do I declare my Deferred Compensation earnings (or losses) under Capital Gains and Losses on my income tax return?

Earnings on Deferred Compensation are not taxable as capital gains, nor are they taxable as capital gains in any other retirement program.

Do I show my Deferred Compensation distributions on my federal income tax forms?

Yes. Distributions are taxable as ordinary income and subject to federal withholding in the years they are received.

An Earnings and Withholding Statement (Form W-2) will be mailed in January of each year for any Deferred Compensation distributions made in the prior year. This statement will be separate from any statement for salary earned during the year or from any statement for retirement benefits.

Do I show my Deferred Compensation distributions on my Illinois income tax form?

Yes, but not as taxable income. Distributions are not taxable under the Illinois Income Tax Act.

On the Illinois income tax form, show your distributions as a subtraction. This is the same line where you indicate any retirement and Social Security benefits you received.

Is Deferred Compensation, together with any earnings, taxable to a beneficiary?

Deferred Compensation is taxable as ordinary income when it is distributed to the participant or beneficiary. In the event that the participant does not designate a beneficiary, or if the beneficiary dies before the participant, any undistributed amount in the participant’s account will be distributed to the participant’s estate and may be subject to federal and any applicable estate taxes.

A Form 1099 R will be mailed in January of each year for any Deferred Compensation distributions made in the prior year.

Will taxes be withheld on distributions?

Yes, but only federal taxes.

Deferred Compensation distributions are not taxable under the Illinois Income Tax Act and are not subject to Illinois withholding.

Is there a penalty if I receive any or all of my account prior to age 59½?

No. There are no penalties associated with this Plan.

Are there any “special deals” or formulas to further defer or spread out taxes when the money is distributed?

No. There are no “rollover” provisions; also, income averaging for qualified retirement plans does not apply to Deferred Compensation, which is considered to be a nonqualified plan by the Internal Revenue Service.

THE PLAN

TITLE 80: PUBLIC OFFICIALS AND EMPLOYEES

SUBTITLE H: DEFERRED COMPENSATION

CHAPTER I:
ILLINOIS STATE BOARD
OF INVESTMENT

AUTHORITY: Implementing Section 457 of the Internal Revenue Code (26 U.S.C.A. 457, 1986, as now or hereafter amended) and the rules of the Internal Revenue Service (26 CFR 1, April 1, 1988, as now or hereafter amended) and implementing and authorized by Section 22A-111.1 and Article 24 of the Illinois Pension Code (40 ILCS 5/22A-111.1 and Article 24.)

SOURCE: Emergency rule adopted at 3 Ill. Reg. 11, p. 161, effective March 6, 1979, for a maximum of 150 days; adopted at 3 Ill. Reg. 13, p. 7, effective March 19, 1979; amended at 3 Ill. Reg. 36, p. 436, effective August 29, 1979; amended at 4 Ill. Reg. 1, p. 45, effective December 26, 1979; amended at 6 Ill. Reg. 9655, effective July 23, 1982; rules repealed, new rules adopted and codified at 7 Ill. Reg. 10845, effective August 31, 1983; emergency amendments at 13 Ill. Reg. 629, effective January 1, 1989, for a maximum of 150 days; amended at 13 Ill. Reg. 9308, effective May 31, 1989; emergency amendment at 17 Ill. Reg. 19976, effective November 2, 1993, for a maximum of 150 days; amended at 18 Ill. Reg. 7224, effective May 2, 1994; amended at 21 Ill. Reg. 10050, effective July 15, 1997; emergency amendment at 23 Ill. Reg. 566, effective January 1, 1999, for a maximum of 150 days; amended at 23 Ill. Reg. 6039 effective May 5, 1999.

NOTE: Statutory language is denoted by capital letters.

SUBPART A: INTRODUCTION AND PURPOSE OF PLAN

Section 2700.100 Establishment of Plan

- a) The rules adopted in this part shall constitute the State Employees’ Deferred Compensation Plan (“Plan”).

- b) When effective, this Plan shall succeed and replace all Prior Plans. All accounts established and amounts deferred and invested under prior plans shall be subject to and administered under the rules of this Plan.

Section 2700.110 Purpose of Plan

- a) The purpose of this Plan is to allow employees to designate a portion of their compensation to be withheld each month by the State of Illinois and invested at the discretion of, and in a manner approved by, the Board until Termination of Service, Unforeseeable Emergency or death of the Employee.
- b) Participation in this Plan shall not be construed to establish or create an employment contract between the employee and the State of Illinois.

SUBPART B: DEFINITIONS

Section 2700.200 Definitions

- a) Whenever used in the Plan, the following terms shall have the meanings set forth below unless otherwise expressly provided, and when the defined meaning is intended, the term is capitalized:

“Accounting Date” means the date on which an Investment Fund is valued and earnings and/or losses are allocated to Participants’ Deferred Compensation Accounts. There shall be an Accounting Date at least once a month and, if practical in the discretion of the Board, more frequent Accounting Dates to reflect, as closely as possible, the earnings and/or losses of any particular Deferred Compensation Account from the time Compensation is deferred and invested in various Investment Funds until it is eventually distributed according to the Plan.

“Alternate Retirement System” means this Plan, which is described in section 457 of the Internal Revenue Code, when used for purposes of section 3121(b)(7)(F) of the Code to exclude contractual employees from mandatory Social Security coverage.

“Beneficiary” means the person, persons, or legal entity entitled to receive any undistributed Deferred Compensation that becomes payable in the event of the Participant’s death, as designated by the Participant, or provided for in accordance with Section 2700.750 of the Plan.

“Board” means the Illinois State Board of Investment.

“Code” means the Internal Revenue Code of 1954 (26 U.S.C.A. 1 et seq.), as amended from time to time, or any successor statute.

“Compensation” means any remuneration payable to an Employee for employment or contractual services rendered to the Employer, which is reportable as taxable income for the purposes of the Code.

“Deferred Compensation” means that portion of the Participant’s Compensation which the Participant defers under this Plan.

“Delayed Distribution Date” means the date the Participant elects to make a decision regarding distribution of the Participant’s account. It can be no later than defined in Section 401(a)(9)(C) of the Code (26 U.S.C.A. 401(a)(9)(C) (1986), as amended by P.L. 99-514, effective January 1, 1989) and explained in Section 2700.720 of this Part.

“Department” means the Department of Central Management Services of the State of Illinois.

“Employee” means any person, including a person elected, appointed or under contract, receiving compensation from the State...for personal services rendered, including salaried persons [40 ILCS 5/24-102], except that any person under contract with the Employer shall be eligible only to the extent the Internal Revenue Service or the Illinois Department of Revenue shall permit or approve.

“Employer” means the State of Illinois, including all officers, boards, commissions, and agencies created by the Illinois Constitution (whether in the executive, legislative, or judicial branch), all officers, departments,

boards, commissions, agencies, institutions, authorities, universities, bodies politic and corporate of the State, administrative units, or corporate outgrowths of the State government (which are created by or pursuant to statute other than units of local government and their officers, school districts, and boards of election commissioners), and all administrative units and corporate outgrowths of the above as may be created by executive order of the Governor.

“Includable Compensation” means the amount of an Employee’s Compensation for a taxable year that is includable in the Employee’s gross income for the taxable year for federal income tax purposes. Such term does not include any amount excludable from gross income under this Plan or any other plan described in Section 457(a) of the Internal Revenue Code, any amount excludable from gross income under Section 403(b) of the Internal Revenue Code, or any other amount excludable from gross income for federal income tax purposes. Includable Compensation shall be determined without regard to any community property laws.

“Minor” means a Beneficiary who is under age 18 at the time a benefit under this Plan becomes payable to him or her, unless Illinois law defines another age.

“Normal Retirement Age” means age 70½ unless the Participant has elected an alternative Normal Retirement Age by written instrument delivered to the Department within 60 days of the Participant’s Termination of Service as provided in Section 2700.510. A Participant’s Normal Retirement Age determines:

- the latest time when benefits may commence under this Plan (unless the Participant continues employment after Normal Retirement Age), and
- the period during which a Participant may utilize the three-year catch-up provision of Section 2700.440 in this Plan.

“Participant” means any Employee who has enrolled in this Plan as provided in Section 2700.410 and has not had a complete distribution of his or her Deferred Compensation Account.

“Pay Period” means a regular accounting period established by the State of Illinois for measuring and paying Compensation earned by Employees. A Pay Period may be monthly, semimonthly, or biweekly.

“Plan” means the State (of Illinois) Employees’ Deferred Compensation Plan, as set forth in these rules, and as it may be amended from time to time.

“Plan Year” shall be the tax year as established by the Comptroller for payroll purposes.

“Prior Plan I” means the State Employees’ Deferred Compensation Plan approved and adopted by the Board on September 10, 1976.

“Prior Plan II” means the State Employees’ Deferred Compensation Plan approved and adopted by the Board on May 18, 1979.

“Prior Plan III” means the State Employees’ Deferred Compensation Plan (80 Ill. Adm. Code 2700) adopted at 7Ill. Reg. 10845, effective August 31, 1983.

“State” means State of Illinois.

“Termination of Service” means the permanent severance of the Participant’s employment relationship with the Employer by means of:

- retirement;
- discharge;
- resignation, provided seniority or continuous service is interrupted;
- layoff, unless there is a designated date for return to paid status;
- expiration or nonrenewal of contract, appointment, or term of office;

- nonreelection; or
- such other form of permanent severance as may be provided by appropriate law, contract, or rules and regulations.

For the purposes of this definition, neither a break in State service for a period of less than 30 days nor transfers among various branches of State Government shall be considered a Termination of Service.

An independent contractor is considered to terminate service with the Employer upon the expiration of all contracts under which services are performed for the Employer, if the expiration constitutes a good faith and complete termination of the contractual relationship.

“Unforeseeable Emergency” means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

- b) Except when otherwise indicated by context, any masculine terminology herein shall also include the feminine and neuter and vice-versa, and the definition of any terms herein in the singular may also include the plural.

SUBPART C: ADMINISTRATION

Section 2700.300 Responsibilities of the Department

- a) Subject to the general supervision of the Board as provided in Section 2700.310, the Department has the full authority to administer the Plan and promulgate, adopt, amend, or revoke internal management procedures which are consistent with, and necessary to implement and maintain, this Plan.
- b) The Department, on behalf of the State of Illinois, shall enter into a written agreement with each Participant, which shall set forth:

- 1) the obligations contained in this Plan,
- 2) the amounts of Compensation to be deferred, and
- 3) such other information as the Department deems necessary to administer the Plan.
- c) Pamphlets describing this Plan and outlining the options and opportunities available shall be made available to eligible employees.

Section 2700.310 Responsibilities of the Board

- a) The Board has the responsibility for general supervision of the Plan, which shall include, but not be limited to:
 - 1) establishment of the Plan,
 - 2) approving or disapproving any proposed changes in the Plan,
 - 3) if deemed necessary by the Board, obtaining Internal Revenue Service and Illinois Department of Revenue approval for the Plan or any amendments thereto, and
 - 4) reviewing any and all proposed investment offerings, each of which must be determined acceptable by the Board prior to being utilized for the investment of Deferred Compensation.
- b) Following approval by the Board of one or more types of investments, if any, to be offered to Participants, the Board shall prepare specifications and make them available to known administrators or providers of that type of investment.
- c) The selection of the successful bidder for each investment will be based on the bidder’s relative ability to provide the program as specified. The Board shall have the authority to:
 - 1) waive minor informalities in bidding,
 - 2) accept more than one bid, and
 - 3) reject any and all bids.

- d) The Board has the responsibility for selecting the custodians to hold the assets of the Plan in accordance with Section 457(g) of the Code and for entering into related custodial agreements in connection therewith.

Section 2700.320 Deferred Compensation Hardship Committee

- a) A Committee shall be formed to be responsible for determining whether any Participant has suffered an Unforeseeable Emergency and is entitled to a distribution under Section 2700.740 of the Plan.
- b) Members of this Committee shall be appointed by the Department, but shall include at least:
 - 1) one Department employee, and
 - 2) two persons not employees of the Department.
- c) Members of this Committee shall be entitled to defer Compensation so long as they are otherwise eligible; however, no member of the Committee shall make any determination with respect to any interest that he or she may have under the Plan.

Section 2700.330 Applicable Law

This Plan shall be construed, administered and governed in all respects under and by the laws of the State of Illinois and the Code.

SUBPART D: PARTICIPATION IN THE PLAN

Section 2700.400 Eligibility

All Employees who are receiving Compensation on or after the date the Plan first became effective shall be eligible to become Participants.

Section 2700.410 Enrollment

- a) Any Employee eligible to participate in the Plan may become a Participant by agreeing in writing, on a form to be provided by the Department, to a deferment of his or her Compensation.

- b) The deferment will commence no sooner than the first pay period of the month following the date the form is properly completed by the Employee, accepted by the Department, and for which the Agency payroll has not closed.
- c) The amount to be deferred will be selected by the Participant and will be agreed to at the time of enrollment. Such amount may not be less than the minimum amount allowable or exceed the maximum amount allowable.
- d) The amount deferred may be changed by the Participant at any time. Such a change shall become effective no sooner than the first Pay Period of the month following the date the form is properly completed by the Employee and accepted by the Department.
- e) A Participant's request to defer Compensation shall remain in effect until the Participant's Termination of Service, unless revoked prior to that time. The Department shall suspend deferrals for the remainder of the calendar year for Participants who have deferred in excess of the allowable maximum. The Department shall also withdraw and return to the Participant the excess amount deferred.
- f) Deferrals can be made by reductions in Compensation only.
- g) Acceptance by the Department shall be granted whenever forms are properly completed and the criteria set by the Plan for acceptance are met.

Section 2700.420 Minimum Deferment

Each Employee who becomes a Participant must agree to defer a minimum amount of 10 dollars (\$10.00) per Pay Period or 20 dollars (\$20.00) per month, whichever is greater.

- (b) The minimum for an Employee who is a contractual Employee, who is participating in the Plan and who uses the Plan as an Alternate Retirement System as defined in regulations for Code Section 3121(b)(7)(F), is 7.5% of Compensation each pay period, unless the minimum is changed by

Code Section 3121(b)(7)(F) regulations, in which case the minimum is whatever is prescribed by the Code. If the 7.5% minimum is less than \$10 per Pay Period or \$20 per month, the latter becomes the minimum.

Section 2700.430 Maximum Deferment

- a) The total amount of Deferred Compensation during any Plan Year shall not exceed:
 - 1) The maximum dollar amount as defined by the Internal Revenue Service, and allowing changes based on the consumer price index, or
 - 2) the maximum amount allowable during the "Catch-Up" period.
- b) In no event, however, can the maximum amount deferred exceed:
 - 1) The maximum for the year during which Catch-Up is utilized, and
 - 2) an amount in excess of the amount of an Employee's Compensation per Pay Period less deductions for FICA, any other taxes, pension contributions, and other mandatory deductions.
- c) If a Participant has deferred in excess of the maximum amount allowable, the Department shall withdraw and return to the Participant the excess amount deferred.

Section 2700.440 Catch-Up

- a) For one or more of the Participant's last three taxable years ending before the Participant attains Normal Retirement Age, a Participant may defer an additional amount, not in excess of the maximum amount deferrable, under this or another Plan authorized under Section 457 of the Code for each year since January 1, 1979, and the amount that was actually deferred during that time.

- b) A Participant eligible for Catch-Up may defer the additional amount by declaring his or her Normal Retirement Age and by agreeing to the Catch-Up conditions stated in this section on a form to be provided by the Department.
- c) Once a Participant has deferred additional Compensation under the Catch-Up provision of this Plan,
 - 1) he or she may not change his or her Normal Retirement Age (for Catch-Up purposes).
 - 2) he or she may not use the Catch-Up provision more than once whether or not the Participant rejoins the Plan or joins a new plan, and whether or not the Catch-Up is used in one or all three of the applicable taxable years.

Section 2700.450 Revocation of Deferral

- a) Any Participant may revoke his or her election to have Compensation deferred by completing the Revocation Section of the Change Form.
- b) Following such notice of revocation, the Participant's full Compensation shall be restored as soon as possible. In no case shall deductions continue later than the Pay Period occurring 30 days after receipt of the revocation form and any other forms requested by the Department to fulfill the requirements of the Office of the Comptroller or any other State agency.
- c) The Department shall suspend a Participant's deferrals for the remainder of the calendar year when the Participant has deferred in excess of the allowable maximum and shall withdraw and return the excess amount deferred.
- d) Revocation shall not cause distribution of the Participant's Account.

SUBPART E: ESTABLISHMENT OF RETIREMENT AGE

Section 2700.500 Normal Retirement Age

For the purposes of this Plan, Normal Retirement Age means age 70½ unless the Participant has elected an alternative Normal Retirement Age.

Section 2700.510 Alternative Normal Retirement Age

- a) A Participant may elect an alternative Normal Retirement Age. Such an election shall be in writing and shall be submitted to the Department.
- b) A Participant's alternative Normal Retirement Age shall not be earlier than the earliest date that the Participant will become eligible to retire and receive unreduced retirement benefits under one of the following retirement systems of which the Employee is a member:
 - 1) General Assembly Retirement System,
 - 2) State Employees' Retirement System of Illinois,
 - 3) State Universities Retirement System,
 - 4) Teachers' Retirement System of the State of Illinois, or the
 - 5) Judges Retirement System of Illinois.
- c) If the Participant is not eligible to receive benefits under a basic retirement plan maintained by the State, the Participant's alternative Normal Retirement Age may not be earlier than the attainment of age 50.
- d) The alternative Normal Retirement Age may not be later than the date the Participant attains the age of 70½ unless the Participant continues employment with the State.
- e) If the Participant continues employment after attaining age 70½, and has not elected an alternative Normal Retirement Age, the Participant's alternative Normal Retirement Age shall not be later than the age at which the Participant actually separates from the service of the State.

SUBPART F: PARTICIPANTS' ACCOUNTS, INVESTMENTS, AND STATEMENTS

Section 2700.600 Deferred Compensation Accounts

- a) For each participant, the State of Illinois shall establish a "Deferred Compensation Account," which shall be the basis for any distributions payable to the Participant under Section 2700.730.
- b) Each Participant's Deferred Compensation Account shall be credited with the amount of any Compensation deferred and shall be further credited or debited, as applicable, with:
 - 1) any increase or decrease resulting from investments made by the State pursuant to Section 2700.670,
 - 2) any applicable expenses incurred by the State in maintaining and administering this Plan,
 - 3) any debits for the amount of any distribution, and
 - 4) any credit for the initial value on the effective date of this Plan of any bookkeeping account maintained under the Prior Plans.

Section 2700.610 Allocation of Investment Earnings or Losses

- a) To the extent that Investment Funds are established by the Board, Deferred Compensation Accounts shall be allocated among such Investment Funds according to the investment elections in effect on behalf of the Participants. Earnings and losses shall be based on the actual investment experience of any applicable Investment Fund.
- b) Earnings and losses will be measured from the Accounting Date coincident with or immediately preceding the date on which any Deferred Compensation is invested in any Investment Fund to the Accounting Date coincident with or immediately preceding the date any Deferred Compensation is withdrawn from any Investment Fund.

- c) The amount of earnings or losses allocated to each Deferred Compensation Account shall reflect the proportion a Participant's Deferred Compensation Account represents in relation to the other Deferred Compensation Accounts having an interest in that Fund.

Section 2700.620 Investment Fund Valuation

- a) Any Investment Fund under this Plan shall be valued at fair market value as of each Accounting Date.
- b) Any withdrawals or distributions made under this Plan shall be made in cash by electronic transfer, or authorized by the State.

Section 2700.630 Administrative Costs

- a) It is the intent of this Plan that it shall not be implemented or administered so as to be an expense to the State of Illinois, except for the State's obligation to pay the Deferred Compensation Accounts as provided in this Plan. Therefore, any expenses of maintaining and administering the Plan shall be borne by the Participants. Such costs shall include, but not be limited to, the costs of:
 - 1) making investments, exchanges, or distributions if any,
 - 2) collecting the Deferred Compensation, and
 - 3) providing information to Participants, Employees, and other agencies of the State.
- b) The method of sharing any expenses and the amount of such expenses shall be determined by the Department subject to the approval of the Board.
- c) An asset charge at an annual rate not to exceed a cap of one percent (.01) shall be levied against the Account of each Participant in the State (of Illinois) Employees' Deferred Compensation Plan. Such charge shall be assessed solely to offset the cost incurred by the State in administering the Plan. Any asset charge will be based on such costs, but in no

case may the actual charge exceed the established cap.

Section 2700.640 Method of Making Investment Requests

- a) A Participant shall, at the time of enrollment, make an investment request on a form provided for that purpose by the Department.
- b) Once made, an investment request shall continue for any deferments unless later changed by the Participant.
- c) A Participant may change investment requests for future amounts of Deferred Compensation an unlimited number of times.
- d) A change in investment request shall be effective no later than the second Pay Period following receipt of the properly completed form by the Department, or telephone notice to the Plan's bookkeeper.
- e) A participant may change an investment request governing amounts previously deferred. However, after July 1, 1994, amounts previously deferred into the stable return option shall not be exchanged directly or indirectly into a money market or bond fund. Any exchange from the stable return option must first be exchanged into one of the other investment options for a period of 90 days.
- f) There will be no charge for the first exchange each quarter of each Plan Year. Each additional exchange will be assessed a transaction charge of \$10.00.

Section 2700.650 Participant Statements

- a) Each Participant shall be provided quarterly with an accounting of his or her Deferred Compensation Account including, but not limited to, the amount deferred and any amounts credited or debited up to quarter-end.
- b) Such an accounting shall be made not later than 60 days after all deferrals for the quarter have been invested.

- c) Participants are responsible for notifying the Department in writing of any investment or other error within 14 days of the receipt of any statement.
- d) The liability of the Plan to the Participants for administrative errors shall not exceed the amount necessary to correct the error. Errors under \$5.00 will not be corrected.

Section 2700.660 Custodial Accounts

- a) Notwithstanding any contrary provision of the Plan, in accordance with Section 457(g) of the Code, all amounts of compensation deferred pursuant to the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights shall be held in one or more custodial accounts for the exclusive benefit of participants and beneficiaries under the Plan. For purposes of this paragraph, the custodian of any custodial account created pursuant to the Plan must be a bank, as described in Section 408(n) of the Internal Revenue Code, or a person who meets the nonbank trustee requirements in accordance with the regulations under Section 408(a)(2) of the Code relating to the use of nonbank trustees.

All amounts of compensation deferred under the Plan shall be transferred to a custodial account described in Section 401(f) of the Code within a period that is not longer than is reasonable for the proper administration of the accounts of Participants.

- b) The Participant and his or her beneficiary shall not have any property interest whatsoever in any specific asset of the State of Illinois on account of his or her election to defer any Compensation under this Plan.

Section 2700.670 Investment Funds

- a) The Board may establish any or all of the following Funds for the investment of Deferred Compensation:
 - 1) Investment Fund A, which shall be invested primarily in savings and loan or commercial bank

deposits, commercial paper, or guaranteed investment contracts of insurance companies.

- 2) Investment Fund B, which shall be invested primarily in corporate or government bonds or pooled investment vehicles, such as mutual funds, whose investment policies emphasize such investments.
- 3) Investment Fund C, which shall be invested in insurance company contracts, either on a group or individual basis, designed to provide an annuity.
- 4) Investment Fund D, which shall be invested primarily in common or preferred stocks, similar equity securities or other property expected to offer growth possibilities, or pooled investment vehicles such as mutual funds, whose investment policies emphasize such investments.
- b) The Board may establish more than one Investment Fund for each category described above if deemed appropriate.
- c) The Board is specifically authorized to utilize outside investment managers to the extent deemed appropriate by the Board.
- d) The Board also has the authority to eliminate any or all of the Investment Funds created by the Plan, provided that in such event, the Department shall notify any Participant who has requested that his or her Deferred Compensation Account be measured as if invested in the Investment Fund or Funds which have been eliminated. Any such Participant shall then have the opportunity to change his or her investment request or revoke his or her deferral pursuant to Section 2700.450, regardless of any other provision of this Plan.

SUBPART G: DISTRIBUTIONS

Section 2700.700 Distribution Events

- a) Distributions under this Plan will be made in accordance with the regulations under Section 401(a)(9) of the Code (26 CFR 54, 52 FR 28070, July 27, 1987). The provisions reflecting Section 401(a)(9) override any distribution options in the Plan inconsistent with Section 401(a)(9).
- b) A Participant’s Deferred Compensation Account may begin to be distributed 30 days after the date of one of the following events.
 - 1) Termination of Service,
 - 2) Death, or
 - 3) Delayed Distribution Date.
- c) A Participant’s Deferred Compensation Account may begin to be distributed as soon as possible but not later than 30 days after determination of an Unforeseeable Emergency by the Hardship Committee.
- d) A Participant with \$3,500 or less in his/her Deferred Compensation Account may elect to cash out his/her Account if he/she is in compliance with conditions as specified in Section 2700.735.
- e) No distributions will be made to a Participant who is employed as an independent contractor before a date which is at least 12 months after the day on which his or her employment contract expires. Should the independent contractor be reemployed by the State as either an Employee or independent contractor during the 12-month waiting period, no distribution will be started on the projected distribution date. If the contractor has attained age 70½ at the time the contract is terminated, the 12-month waiting period is waived.
- f) Participants are responsible for notifying the Department of their Termination of Service.
- g) Beneficiaries are responsible for notifying the Department of the death of the Participant and supplying the Department with a certified copy of the death certificate.

- h) A Participant who does not receive the initial distribution until the calendar year following the year in which he or she reaches age 70½ or separates, if he or she works past age 70½, will receive at least two taxable distributions in the same year.

Section 2700.710 Beneficiary Election of Method of Distribution

- a) Within 60 days of the date of death of a Participant, the Beneficiary shall elect a method of distribution.
- b) In the case of a distribution to a Beneficiary when the account was partially distributed to the Participant before death:
 - 1) The Beneficiary may elect one of the options provided in Section 2700.730.
 - 2) The installment period is limited to the balance of the deceased Participant’s installment period.
 - 3) Distribution to a Beneficiary who does not make an election within the 60-day election period will be a continuation of the method under which the account was being distributed prior to the Participant’s death, unless the amount of the account is \$3,500 or less, in which case the distribution will be immediately in a lump sum.
- c) In the case of a distribution to a Beneficiary when the Participant died before distributions began:
 - 1) The Beneficiary may elect one of the options provided in Section 2700.730.
 - 2) The installment period cannot exceed the Beneficiary’s life expectancy or 15 years, whichever is shorter.

If a Participant has more than one designated Beneficiary, the designated Beneficiary with the shortest life expectancy will be the designated Beneficiary for purposes of determining the distribution period.
 - 3) The Beneficiary who does not make an election within the

- 60-day election period will have the account distributed in five annual installments, unless the amount of the account is \$3,500 or less, in which case it will be distributed immediately in a lump sum.
- d) If the Beneficiary dies after the distribution has commenced:
 - 1) The balance of the account will be distributed to the Beneficiary of the Beneficiary receiving distributions.
 - 2) The distribution method will be a continuation of the method in effect prior to the Beneficiary's death, unless the amount of the account is under \$3,500, in which case the distribution will be immediately in a lump sum.
 - e) The Beneficiary's election becomes irrevocable after the 60-day election period expires.
 - f) If the designated Beneficiary is other than an individual:
 - 1) The Beneficiary may elect a lump-sum cash payment of all or a portion of the balance of the account, or
 - 2) The Beneficiary may elect installments over a period of time not longer than five years.
 - 3) The Beneficiary who does not make an election within the 60-day election period will have the account distributed in a lump sum.
 - c) In no case may a Participant elect a Delayed Distribution Date beyond age 70½.
 - d) A Participant may elect to make a one-time change forward of his/her Delayed Distribution Date provided that the election is made during the 30-day election period after the Delayed Distribution Date is reached. Such election shall be irrevocable.
 - e) In the event a Participant who has terminated State service and elected a Delayed Distribution Date returns to State employment prior to reaching the Delayed Distribution Date, the Delayed Distribution Date is effectively voided. Whether or not the Participant resumes deferrals shall not affect the nullification.
 - f) Neither a Participant who works past age 70½, nor a participant with an account value less than \$3,500, nor a Beneficiary may elect a Delayed Distribution Date.

Section 2700.730 Election of Method of Distribution

- a) At any time prior to the end of the Participant's election period, a Participant may elect one or more of the following methods by which the Deferred Compensation Account shall be distributed:
 - 1) A lump-sum cash payment of all or a portion of the balance of the Account. The amount paid for such lump-sum withdrawal shall be based upon the value of the Participant's Account as of the Accounting Date.
 - 2) Monthly installments of fixed-dollar amounts.
 - A) The installment dollar amounts may be selected by the Participant, but shall not be less than the amount determined to provide for total payout over a period of years not to exceed the life expectancy of the Participant.
 - B) The installment dollar amounts may be changed

Section 2700.720 Election of Delayed Distribution Date

- a) Within 60 days of Termination of Service, a Participant shall elect a Delayed Distribution Date. Participant's election becomes irrevocable after the 60-day election period expires until the Delayed Distribution Date is reached.
- b) The Delayed Distribution Date may be:
 - 1) a specific future date, or
 - 2) Normal Retirement Age.

by the department, but only to assure adherence to section 2700.730(a)(3)(B) of the Plan or as ordered by the Hardship Committee.

- C) The amount of each distribution may be transferred electronically to the Participant's bank or other account that accepts such direct deposits.
- 3) In installments over a period of years not longer than the life expectancy of the Participant.
 - A) Such installments shall be made in regular increments of monthly, quarterly, semiannual, or annual payments. The amount of each distribution may be transferred electronically to the Participant's bank or other account that accepts direct deposits.
 - B) Such installments shall be made in such amount to assure that the total value of the Participant's account shall be received by the Participant during his or her projected lifetime (as determined at the time distributions commence or as otherwise provided by applicable code and regulations).
 - C) For the purposes of this Plan, the Participant's life expectancy shall be determined by an applicable Internal Revenue Service Table in accordance with the regulations under Section 401(a)(9) of the Code, provided, however, that the Participant may elect whether or not his or her life expectancy will be recalculated annually. Such election must be made prior to the first required distribution date, shall be irrevocable, and shall apply to all subsequent years.
 - D) Any portion of the Deferred Compensation

Account that has not been distributed shall continue to be credited and/or debited according to the provisions of Sections 2700.600 and 2700.610.

- E) The amount of a periodic installment benefit payment shall be determined each time there is a distribution. This amount shall be calculated on the Accounting Date for the month based on the value of the Participant's Account on that date and the number of installments remaining. However, the final installment will be an amount equal to the value of the Participant's Account on the Accounting Date for that final distribution.
- 4) A transfer of all of the account from this Plan to an eligible plan authorized under Section 457 of the Code.
 - A) The State or local government sponsoring the receiving 457 Plan is responsible for determining whether the Plan is eligible and certifying the same on a form provided by the Department.
 - B) The transfer will commence on the next Accounting Date following receipt of the certification and any other required forms.
 - C) In the event the receiving plan is not an eligible plan or does not authorize transfers, the distribution of the account will be held no longer than 180 days and the Participant will be given 30 days to make a new distribution method election.
- b) If the Participant does not elect a method of distribution prior to the end of the Participant's election period, the Deferred Compensation Account will be distributed in five annual installments, unless the amount of the account is \$3,500 or

less, in which case it will be distributed immediately in a lump sum.

- c) The Participant's election becomes irrevocable after the election period expires.

Section 2700.735 Distribution of Small Accounts

- a) If a Deferred Compensation Account plus any uninvested deferrals on the date the Participant separates from State service (or dies) is equal to or less than \$3,500, the Account shall be distributed in a lump sum on the next Accounting Date or, in the event of the Participant's separation, transferred to another 457 Plan in accordance with Section 2700.730(a)(5).
- b) If a Participant's Deferred Compensation Account is \$3,500 or less, such Account may be distributed in a lump sum on the next Accounting Date to the Participant during employment, provided the Participant has not contributed to his/her Account during the two-year period ending on the date of the distribution. The Cash-Out Provision may be used only once by a participant.

Section 2700.740 Unforeseeable Emergency

- a) A distribution of all or a portion of a Participant's Deferred Compensation Account or a change in method of distribution to a Participant shall be permitted in the event the Participant experiences an Unforeseeable Emergency.
- b) Distributions shall not be made to the extent that such hardship is or may be relieved:
 - 1) through reimbursement or compensation by insurance or otherwise,
 - 2) by liquidation of the Participant's assets to the extent the liquidation of such assets would not itself cause severe financial hardship, or
 - 3) by cessation of deferrals under the Plan.

- c) A Participant's deferrals will automatically be revoked upon application for a hardship distribution.
- d) If the application is approved, the Participant cannot reenroll for 12 months following receipt of the hardship application, unless said application is to request cessation of distribution payments.
- e) For the purposes of this Plan, a Beneficiary whose interest has "vested" in accordance with Section 2700.750 shall have all rights of a Participant to request a distribution in the event of an Unforeseeable Emergency.
- f) A Participant desiring a distribution by reason of a serious Unforeseeable Emergency must apply to the Hardship Committee and demonstrate that:
 - 1) the circumstances being experienced were not under the Participant's control, and
 - 2) the circumstances constitute a real emergency, which is likely to cause the Participant great financial hardship.
- g) The Hardship Committee shall have the authority to require such medical or other evidence as it may need to determine the necessity for Participant's withdrawal request. In the event this information is not provided, the case will be considered closed 60 days after the date of request by the Hardship Committee.
- h) The Hardship Committee shall reach its decision to approve or disapprove the financial hardship withdrawal request within 30 days following receipt of the completed application and necessary information required by the application or the Hardship Committee.
- i) In the event a Participant is not satisfied with the decision of the Hardship Committee on an application for an Unforeseeable Emergency distribution or change in distribution, the Participant may appeal in writing to the Board within 15 days of receipt of the Hardship Committee's decision.

- j) The Board shall, within 30 days of receipt of the appeal, conduct a hearing and review evidence presented by the Participant.
 - k) The Board shall then render a final decision within 15 days of the hearing, which shall be binding on all parties.
 - l) If an application for an Unforeseeable Emergency distribution is approved, the distribution shall be limited to an amount sufficient only to meet the emergency and shall in no event exceed the amount of his or her Deferred Compensation Account as of the Accounting Date next preceding or coincident with such withdrawal.
 - m) The allowed distribution shall be payable in a method determined by the Hardship Committee and shall commence as soon as possible, but not later than 30 days after notice to the Participant and the Department of approval of the request by the Committee.
- become effective only upon the death of all primary Beneficiary(ies), or if all the primary Beneficiary(ies) designation(s) has(have) been found invalid.
- f) If more than one Beneficiary is named in either category, benefits will be paid according to the following rules:
 - 1) Beneficiaries can be designated to share equally or to receive specific percentages.
 - 2) If a Beneficiary dies before the Participant, only the surviving Beneficiaries will be eligible to receive any benefits in the event of the death of the Participant. If more than two Beneficiaries are originally named to receive different percentages of the benefits, surviving Beneficiaries will share in the same proportion to each other as indicated in the original designation.
 - g) A person, trust, estate, or other legal entity may be designated as a Beneficiary.

Section 2700.750 Designation of Beneficiary

- a) A Participant may designate a Beneficiary or Beneficiaries who will receive any balance in the Participant's Deferred Compensation Account in the event of his or her death.
- b) A designation of Beneficiary shall be effective for subsequent distributions when received by the Department. Such designation shall be in writing and should be made on a form provided by the Department for that purpose. The form must be signed by the Participant.
- c) A Participant may, at any time, change his or her Beneficiary by completing the form provided by the Department.
- d) No Beneficiary shall have any rights under this Plan until the death of the Participant who has designated him or her.
- e) Participants may designate primary and contingent Beneficiaries. A contingent Beneficiary's interest will
- h) If a Beneficiary has not been designated, or a designation is ineffective due to the death of all Primary and Contingent Beneficiaries prior to the death of the Participant, or the designation is ineffective for any reason, the estate of the Participant shall be the Beneficiary.
- i) Upon the death of the Participant, any Beneficiary entitled to the value of the Deferred Compensation Account under the provisions of this Section shall become a "Vested Beneficiary" and have all the rights of the Participant with the exception of making any deferrals.
- j) Before the account can be distributed, the Beneficiary must provide the Department with his or her Social Security number, and a certified copy of the participant's death certificate.
- k) In the event of a conflict between the provisions of this Section and any annuity contract purchased in accordance with Section 2700.730(a)(4) as in effect prior to January 1, 1999, the latter shall prevail.

Section 2700.760 Leave of Absence

- a) Any Participant who is granted a leave of absence by the Employer may continue to participate in this Plan as long as the leave of absence is approved by the Employer.
- b) If an approved leave of absence is terminated by the Employer or Employee without the resumption of the employment relationship, and if the Employee has been removed from the payroll for 30 days, the Participant shall be treated as having a Termination of Service under this Plan, as of the date of termination of such leave, and shall have 60 days to elect a method of distribution.

SUBPART H: MISCELLANEOUS**Section 2700.800 Nonassignability**

- a) The contract entered into between the Employer and a Participant through this Plan, and the benefits, proceeds, or payments thereunder, cannot be sold, assigned, pledged, commuted, transferred, or otherwise conveyed by an Employee, Participant, or Beneficiary. Any attempt to assign or transfer shall not be recognized and shall impose no liability upon the Employer.
- b) To the extent required under a final judgment, decree, or order made pursuant to a state domestic relations law that relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child, or other dependent of the Participant (an "Alternate Payee"), a portion of a Participant's Deferred Compensation Account may be transferred to a separate account and any amount so set aside shall be distributed to the Alternate Payee upon the Participant's termination of service or death, whichever of said two events shall occur first.
- c) Except as otherwise required by law, any Deferred Compensation monies withheld pursuant to this Plan shall not be subject to attachment, garnishment, execution, or to transfer by operation of law in the event of bankruptcy or insolvency of the Participant or otherwise.

Section 2700.810 Payments to Minors and Incompetents

If the Department is notified that a Participant or Beneficiary entitled to receive any benefit under this Plan is adjudicated by a Court of Law to be mentally incompetent, or that a Beneficiary is a minor at the time when a benefit under this Plan becomes payable to him or her, the Department shall, upon receipt of a Court order, authorize payment of such benefit to such other person or institution, including a custodian under any State's Gift to Minors Act, who has been duly appointed as the Participant's or Beneficiary's guardian, or such person or institution who is then maintaining or has custody of the Participant or Beneficiary, or to a Court of Law for distribution pursuant to that Court's order.

Section 2700.820 Missing Persons

- a) If the Department is unable to ascertain the whereabouts or identity of any person who is due to receive a benefit under this Plan at the time that benefit is due, the Department shall attempt to serve notice on such person by certified mail addressed to that person's last known address.
- b) Should such attempt to serve notice fail, the Department shall ask the help of the Department of Financial Institutions in advertising the need to locate the person pursuant to 38 Ill. Adm. Code 180.
- c) Should such attempt to locate that person fail, the Department shall authorize payment of that benefit and all other benefits due such a person to the primary Beneficiary(ies).
- d) If there are no other primary Beneficiaries, the Department shall authorize payment of that benefit to contingent Beneficiaries.
- e) If there are no contingent Beneficiaries, the Department shall authorize payment of that benefit to the estate of the Participant.
- f) If there is no open estate, or if the heirs of the estate can not be found to open an estate, then (seven years after the Participant's death) the Department shall authorize payment of that benefit to the General Revenue Fund of the State of Illinois.

Section 2700.830 Severability

If any provision of this Plan shall be for any reason invalid or unenforceable, the remaining provisions shall, nevertheless, continue in effect and shall not be invalidated thereby.

Section 2700.840 Days and Dates

Whenever a time limit is expressed in terms of a number of days, they shall be consecutive calendar days, including weekends and holidays. If the last day of a period of days would occur on a weekend or a holiday recognized by the State of Illinois, the last day of the period shall be the next business day following.

SUBPART I: AMENDMENT OR TERMINATION OF PLAN

Section 2700.900 Amendment of Plan

- a) The Department shall have the authority to propose amendments to this Plan from time to time by submitting them in writing to the Board for approval.
- b) No amendment or modification shall adversely affect the rights of Participants or their Beneficiaries to the receipt of Compensation deferred prior to such amendment or modification unless required by State or Federal law to maintain the tax status of the Plan and any Compensation previously deferred.

Section 2700.910 Termination of Plan

- a) The Board shall have the authority to terminate this Plan, or to substitute a new Plan.
- b) Upon termination of the Plan, each Participant shall be deemed to have withdrawn from the Plan as of the date of such termination, and the Participant’s full Compensation will be restored to a nondeferred basis.
- c) The Plan will otherwise continue in effect until all Deferred Compensation Accounts have been distributed in accordance with the Plan.
- d) Changes in the Plan, termination of the Plan, or substitution of a new

Plan shall be made in accordance with the Illinois Administrative Procedures Act (Ill. Rev. Stat. 1981, ch. 127, pars. 1001 et seq.).

Section 2700.920 Merger With Prior Plans

- a) This Plan constitutes an amendment and restatement of the State Employees’ Deferred Compensation Plan (80 Ill. Adm. Code 2700) adopted at 7 Ill. Reg. 10845, effective August 31, 1983 (Prior Plan III).
- b) All Participants and any Compensation deferred under the Prior Plans are, from the Effective Date of this Plan, governed by the terms of this Plan, subject to the following provisions:
 - 1) All deferrals elected under the Prior Plans shall continue without further action so long as they do not exceed the limits in Section 2700.430.
 - 2) Any investment requests made under the Prior Plans shall continue to apply to any deferrals made under this Plan until changed by a Participant in accordance with Section 2700.640.
 - 3) Any election of the method of distribution of benefits made through Prior Plan I shall be void, and a Participant or Beneficiary may elect the form of distribution in accordance with Sections 2700.710 and 2700.730 of this Plan.
 - 4) Any election of the method of distribution of benefits made through Prior Plans II and III shall remain in full force and effect unless it conflicts with the provisions of this Plan. In the event of a conflict, a Participant or Beneficiary shall have 30 days from date of notification to elect a new method of distribution consistent with the requirements of this Plan.
- c) Any Delayed Distribution Dates elected under Prior Plan II by a Participant or Beneficiary made prior to October 27, 1982, shall

remain in full force and effect and are irrevocable. Delayed Distribution Dates elected under Prior Plan II made after October 27, 1982, shall be void if they conflict with the provisions of this Plan.

A Participant whose Delayed Distribution Date is void shall have his or her Deferred Compensation Account distributed in accordance with Section 2700.730.

- d) A Participant who has elected a Delayed Distribution Date but not yet reached it may choose, within 60 days from the effective date of this Plan, to transfer the value of the account to another eligible plan authorized under Section 457 of the Code.

ADMINISTRATIVE RULES

**Section 2700.APPENDIX A
Administrative Rules (repealed)**

**Section 2700.EXHIBIT A Administrative
Rule I (repealed)**

(Source: Repealed at 4 Ill. Reg. 1, p. 45, effective December 26, 1979.)

**Section 2700.EXHIBIT B Administrative
Rule II (repealed)**

**Section 2700.EXHIBIT C Administrative
Rule III (repealed)**

**Section 2700.EXHIBIT D Administrative
Rule IV (repealed)**

**Section 2700.EXHIBIT E Administrative
Rule V (repealed)**

**Section 2700.EXHIBIT F Administrative
Rule VI (repealed)**

The foregoing rules are reprinted from the Illinois Administrative Code. These rules have been formally adopted and are on file with the Secretary of State.

INVESTMENT TERMS

ASSETS - Anything owned that has monetary value or can be exchanged for monetary value (for example, your home).

BENCHMARK - An index or an average of similar securities and mutual funds used to compare the performance of a security or mutual fund to that specific index or average.

BLUE CHIP - Common stock of a company that has a long record of growth, dividends, and a reputation for quality.

BOND - A promise to repay a debt, similar to an IOU. Usually, a company or government body sells bonds to raise money for a particular project and promises to pay back the face value of the bond when it becomes due (its “maturity date”) and to pay interest in the meantime.

BUSINESS DAY - Any day U.S. stock exchanges and financial markets are open. This is usually Monday through Friday, except for holidays.

CAPITAL - Money available for investment purposes.

CAPITAL GROWTH (LOSS) - An increase (or decrease) in value, for example, of a stock or mutual fund, resulting from favorable (or unfavorable) investment performance. This may also be expressed as appreciation (or depreciation).

CONVERTIBLE STOCKS - Shares of preferred stocks that pay a fixed dividend and are convertible into common stock at a set price.

CREDIT RISK - The risk that a borrower/issuer will fail to live up to his obligations to pay interest or principal, resulting in a loss to the investor. With bonds, the credit risk refers to the bond issuer’s ability to repay principal and interest to its bondholders. Generally, the higher an issuer’s credit quality, the lower the yield on the bond. The reverse is also true.

DEFINED CONTRIBUTION PLAN -

An employer-sponsored savings plan that provides an individual account for each participant. Each participant’s benefits are determined by the money contributed to the account and the investment gains or losses. The State of Illinois Deferred Compensation Plan is such a plan.

DISTRIBUTION - A withdrawal or payout to you from your Plan account.

DIVERSIFICATION - Spreading your money among different kinds of investments.

DIVIDEND - A payment to shareholders, which represents their share of a fund’s or a company’s earnings available for distribution (net income). Dividends are automatically reinvested in your plan account.

DOLLAR COST AVERAGING - A long-range strategy for riding out the peaks and valleys of share prices by investing a fixed-dollar amount at regular intervals (like every pay period or once a month). That way, you average the cost and avoid buying all of the shares in your fund mix at the highest price. Of course, dollar cost averaging does not protect against loss in a declining market nor insure a profit.

EARNINGS - A company’s or fund’s profit after paying all costs, expenses, and taxes.

GUARANTEED INVESTMENT CONTRACT (GIC) - An investment that provides a fixed rate of interest over a set period of time. These contracts are issued by insurance companies.

INCOME - Interest or dividends earned from an investment. Income is automatically reinvested in your plan account.

INDEX - A yardstick used to measure changes in the stock or bond market or other specific financial markets. An index can be used like a scorecard to compare one’s fund performance with that of a group of similar securities or mutual funds. See Benchmark.

INTEREST - Money a borrower pays to a lender as the cost of using money, expressed as a percent per period of time. The period of time is usually one year, in which case it is called “annual rate of interest.”

INVESTMENT CONTRACT - A fixed-income instrument that provides a stable fixed rate of interest.

INVESTMENT OBJECTIVE/GOAL -

A statement of the goals a fund wants to achieve through its investments. Generally, investors match their financial objectives with funds that have similar goals.

IRA - Short for individual retirement account, a tax-sheltered retirement account, which is established by an individual.

LEHMAN BROTHERS U.S. AGGREGATE INDEX - An index that measures the broad bond market.

MATURITY DATE - The date upon which a bond issuer must pay back the face amount of the bond.

MONEY MARKET FUND - A mutual fund that specializes in investing in stable, liquid, short-term securities, such as U.S. Treasury bills and certificates of deposit. It is managed to maintain a share price of \$1.00 per share, although there is no guarantee it will do so. Money market funds are neither insured nor guaranteed by the U.S. government.

MUTUAL FUND - A pool of money raised from many investors who share similar investment goals. The money is invested in many different securities and managed by professional money managers.

NET ASSET VALUE - A fund's share price, which is calculated at the end of every business day.

90-DAY U.S. TREASURY BILLS - Short-term securities that are often used as a yardstick to compare money market funds against.

NO-LOAD FUND - A mutual fund that sells its shares without adding a sales charge.

PORTFOLIO - A collection of different types of investments held by an investor.

PRINCIPAL - The original amount invested, not counting interest or dividends on that amount.

PROSPECTUS - A document that describes a fund's investment objectives, history, management fees, financial status, and other important information.

RISK - The possibility that your investment will lose value.

SECURITIES - Include financial instruments or documents representing an investment that show an ownership position in a corporation (a stock) or a creditor relationship with a corporation or governmental agency (a bond).

STANDARD & POOR'S 500 COMPOSITE STOCK PRICE INDEX - (S&P 500) is an unmanaged index of 500 common stock prices, which includes reinvestment of dividends. The S&P 500 is often used to measure the overall stock market.

STOCK - A partial share of ownership in a company. Generally, stocks do not pay interest; some stocks pay dividends. A stockholder shares in the company's successes and failures through the increase or decrease in the value of the company's stock and dividends. Stocks are an example of an equity security.

TAX-DEFERRED - Refers to an investment whose earnings (interest and dividends) accumulate free of taxes until you withdraw them.

TOTAL RETURN - The profit or loss on an investment over a specific period of time. Total return includes income and share price appreciation and depreciation. Total return assumes that all dividends and capital gains paid during the period are reinvested to buy additional shares.

VOLATILITY - A measure of price or interest rate fluctuations over a given period of time.

WHERE TO GO FOR PLAN INFORMATION

State of Illinois CMS Deferred Compensation Office

200 West Washington
Springfield, Illinois 62701
800/442-1300
217/782-7006
217/785-3979 TDD/TYY
Monday through Friday, 8:30 a.m. to 5 p.m.,
central time
www.state.il.us/cms/employee/defcom

Liberty Acorn Fund

Fleet Boston Financial Corp.
800/9-ACORN-9 (922-9769)
www.acornfunds.com

Ariel Mutual Funds

200 E. Randolph Dr.
Suite 2900
Chicago, Illinois 60601
800/29-ARIEL (292-7435)

Fidelity Investments

Attn.: Fidelity Institutional Retirement
Services Co.
82 Devonshire St.
Boston, Massachusetts 02109
800/544-8888
www.fidelity.com

PRIMCO Capital Management

Attn.: State of Illinois
P.O. Box 77405
Atlanta, Georgia 30357
800/228-7466

Provident Investment Counsel Mutual Funds

P.O. Box 8943
Wilmington, Delaware 19899
800/618-7643
www.provnet.com

T. Rowe Price

P.O. Box 89000
Baltimore, Maryland 21289-8888
888/457-5770 24-hours a day
800/521-0325 TDD/TYY
To speak with a representative, please call
Monday through Friday, 7:30 a.m. to 9 p.m.
central time. Press # and then 0 and you will
be transferred to a representative.
rps.troweprice.com

The Vanguard Group of Investment Companies

P.O. Box 2900
Valley Forge, Pennsylvania 19482
800/523-8066
www.vanguard.com

Wells Fargo Funds

P.O. Box 8266
Boston, Massachusetts 02266-8266
800/222-8222
www.wellsfargo.com

OTHER RESOURCES

Department on Aging
421 East Capitol Ave.
Springfield, Illinois 62701
217/785-2870
www.state.il.us/aging

Regional Office of the Social Security
Administration
300 S. Wacker Drive
Chicago, Illinois 60606
312/353-8277
www.ssa.gov

State Employees Retirement System
2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794
217/785-7444
www.state.il.us/srs

[Planning Your Retirement](#) from AARP
Worker Equity
AARP Fulfillment
1909 K Street, N.W.
Washington, D.C. 20049
(Allow six to eight weeks for delivery.)
www.aarp.org

Check with your Agency Liaison about planning materials your fund providers offer.

Produced by T. Rowe Price in conjunction with the State of Illinois Deferred Compensation Plan, Fleet Boston Financial Corp., L.P., Ariel Mutual Funds, Fidelity Investments, PRIMCO Capital Management, Provident Investment Counsel, The Vanguard Group of Investment Companies, and Wells Fargo.

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